

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 DHA-02 DODE-00 PM-04

H-02 L-03 NSC-05 PA-02 PRS-01 SS-15 /102 W

----- 038830

R 291925Z NOV 76

FM AMCONSUL TORONTO

TO SECSTATE WASHDC 4579

INFO AMEMBASSY OTTAWA

AMCONSUL MONTREAL

AMCONSUL QUEBEC

UNCLAS TORONTO 2150

E.O. 11652:N/A

TAGS: EINV, ECON, CA

SUBJECT: MORE BROKERAGE REACTION QUEBEC ELECTION

REF: TORONTO 2144

1. IN ITS MARKET NOTES OF NOVEMBER 24, THE TORONTO BROKERAGE MOSS, LAWSON & CO. LIMITED NOTED THAT "FOREIGN INVESTORS, AMERICANS IN PARTICULAR, AND CANADIANS IN GENERAL, APPEAR TO HAVE USED THE QUEBEC ISSUE AS AN EXCUSE TO DUMP CANADIAN STOCKS IN GENERAL." THE FIRM HAD MADE THE POINT THAT THE QUEBEC ELECTION ADDED A FURTHER LAYER OF DISENCHANTMENT TO THE MAJOR NEGATIVE FACTORS EXISTING

IN THE CANADIAN MARKETS SINCE THE ESTABLISHMENT OF THE ANTI-INFLATION BOARD.

2. IN ITS OUTLOOK FOR CANADA IN THE SAME ISSUE, MOSS, LAWSON STATED:

(A) REAL GNP GROWTH IN CANADA ESTIMATED AT 4 PERCENT FOR 1976 WITH FORECAST FOR 1977 BEING PLUS 3.8 PERCENT,

(B) THE 1976 INFLATION RATE OF 7 1 7.5 PERCENT

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WITH DECREASE TO 6.5 PERCENT IN 1977,

(C) INTEREST RATES STILL HIGH AND OUT-OF-LINE WITH US RATES DESPITE RECENT ADJUSTMENTS AND FURTHER REDUCTIONS ARE POSSIBLE IN BOTH LONG AND SHORT RATES OVER THE NEXT 12 MONTHS,

(D) CANADIAN DOLLAR TO WEAKEN TO PARITY IN 1977 AND TRADE AT AS DISCOUNT TO THE US DOLLAR IN 1978,

(E) "MAJOR NEGATIVES INFLUENCING THE CANADIAN SCENE CONTINUE TO BE: THE AIB CONTROLS PROGRAM; FEDERAL AND PROVINCIAL GOVERNMENT POLICIES; LOW WORKER PRODUCTIVITY AND MILITANT LABOR UNIONS. THE PROBLEMS WERE COMPOUNDED BY THE ELECTION OF THE PART QUEBECOIS IN QUEBEC 10 DAYS AGO. WHILE MOST OF THE PROBLEMS OUTLINED ABOVE HAVE BEEN LARGELY DISCOUNTED IN THE MARKET, WE FEEL THAT THE QUEBEC SITUATION COULD LEAD TO FURTHER WEAKNESS PENDING CLARIFICATION OF THE GOVERNMENT'S INTENTION. THESE WILL NOT LIKELY SURFACE UNTIL A FORMAL BUDGET PRESENTATION AFTER THE NEW YEAR."

(F) THE POSITIVES WHICH COULD AFFECT THE CANADIAN MARKET IN 1977: DOMINANTLY SPECULATIVE AND POLITICAL, INCLUDING "THE REMOTE POSSIBILITY OF DEFUSING THE SEPARATIST QUESTION, CONSIDERED UNLIKELY OVER THE NEXT 12 MONTHS."

3. THE BROKERAGE NOTED THAT A SHORT-LIVED RECOVERY RECUPERATED 48 PERCENT OF 7.53 POINT LOSS IN THE TORONTO STOCK EXCHANGE INDUSTRIAL

INDEX WHICH OCCURRED IN THE 2 DAYS FOLLOWING THE ELECTION BUT THAT THE RECOVERY WAS LOSING GROUND TO RESUMED SELLING AND A DISTINCT LACK OF BIDS. "WHILE MANY BROKERS ARE SUGGESTING THAT CERTAIN STOCKS ARE REACHING 'BARGAIN' LEVELS THERE APPEARS TO BE NO RUSH TO BUILD LONG POSITIONS."
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ELECTION RESULTS, SECURITIES MARKETS, FOREIGN INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 NOV 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976TORONT02150
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760441-1200
From: TORONTO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976116/aaaaaeun.tel
Line Count: 90
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 TORONTO 2144
Review Action: RELEASED, APPROVED
Review Authority: powellba
Review Comment: n/a
Review Content Flags:
Review Date: 05 AUG 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 AUG 2004 by castels>; APPROVED <23 NOV 2004 by powellba>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MORE BROKERAGE REACTION QUEBEC ELECTION
TAGS: EINV, ECON, CA, LAWSON & CO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006